ANNUAL REPORT 1980

AMERICAN STORES COMPANY

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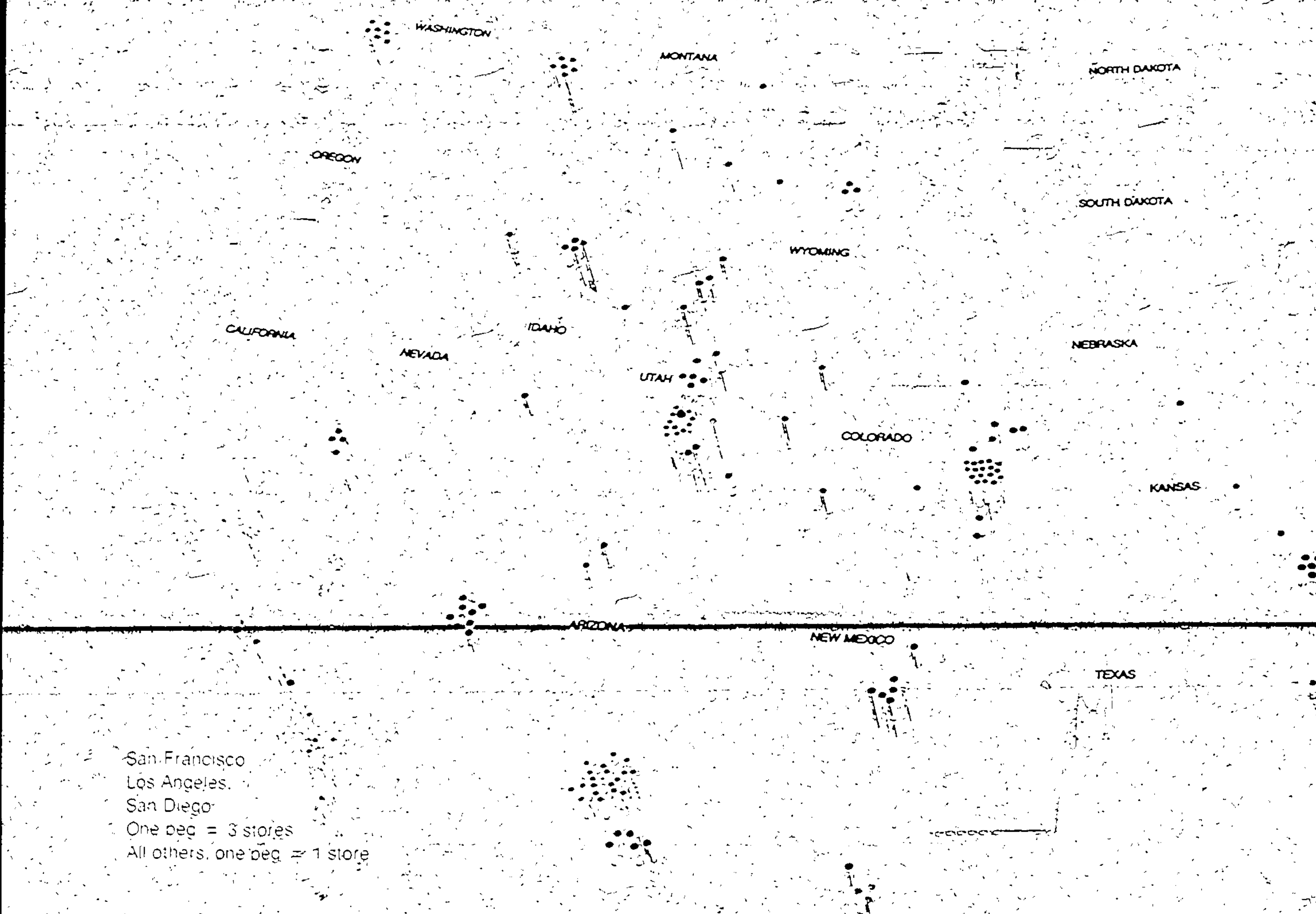
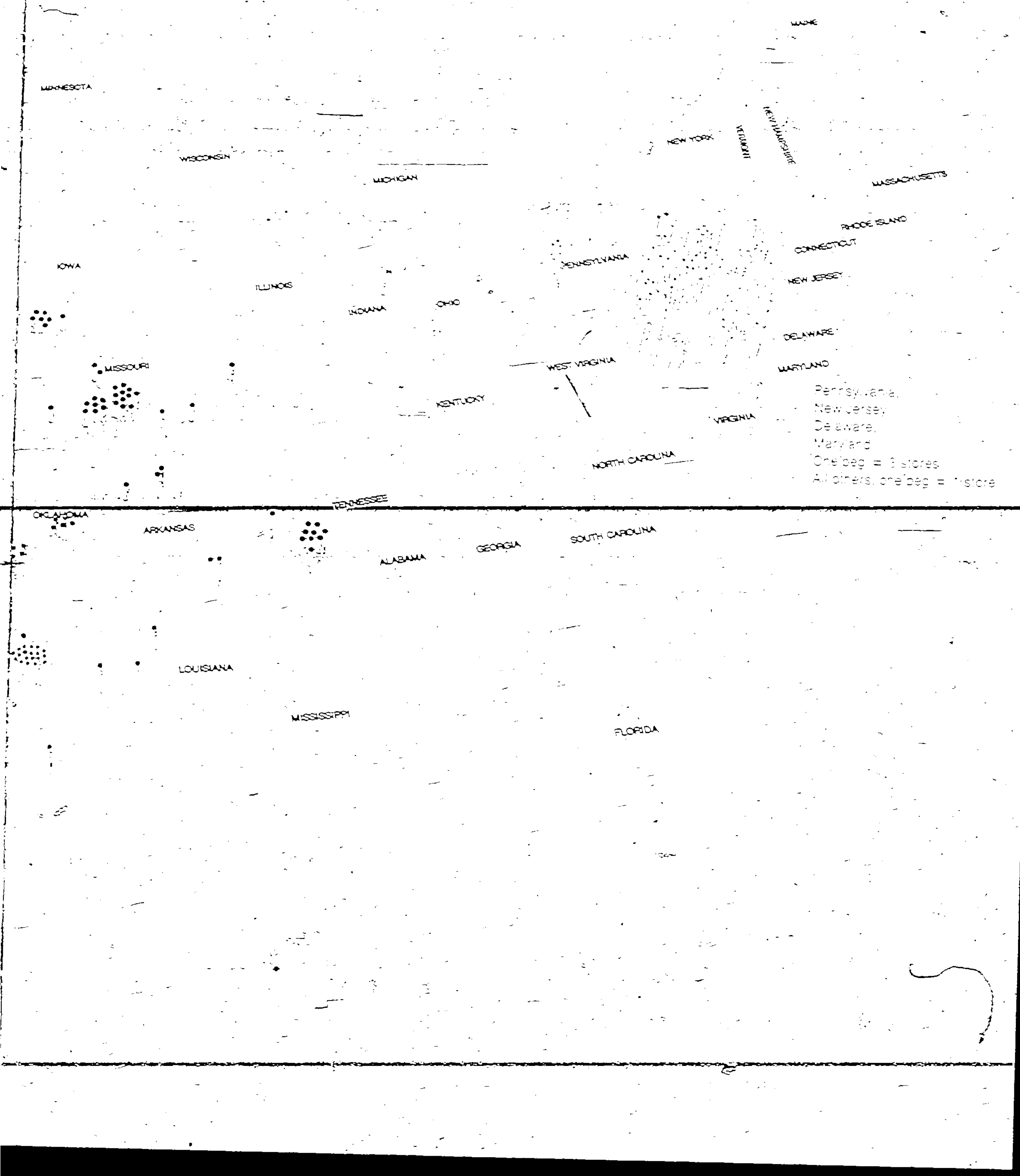


- Headquarters / Salt Lake City, Utah
- Alpha Beta Company
- Skaggs Drug Centers
- Alpha Beta Combination
- Skaggs / Alpha Beta Combination
- Acme Markets, Inc.
- Rea and Derick, Inc.

T O R E S   C O M P A N Y



FINANCIAL HIGHLIGHTS

Fiscal years ended January 31, 1981 and February 2, 1980.

(in thousands of dollars, except per share data)

	52 Weeks 1980	53 Weeks 1979
Sales	**$6,419,884**	$3,786,332
Net Earnings	**$ 51,553**	$ 44,434
Per Share	**$ 4.11**	$ 4.36
Dividends Declared Per Share:		
Common	**$ .80**	$ .80
Preferred	**$ 5.51**	$ 3.465
Common Shareholders' Equity	**$243,868**	$ 210,746
Return on Common Shareholders' Average Equity	**18%**	22%
Average Common Shares Outstanding	**9,804**	8,844

Annual Meeting. The annual meeting of shareholders will be held at the Salt Lake International Center, 5181 Amelia Earhart Drive, Salt Lake City, Utah on Wednesday, June 3, 1981, at 10:00 AM.

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LETTER TO SHAREHOLDERS

Dear Shareholder:

Despite the challenging economic environment encountered in fiscal year 1980, American Stores Company continued to pursue a steady course as a strong and growing retail company. We are pleased to report that good progress was made toward realizing our longer term objectives in what was our first full year as the new American Stores Company following the merger in July, 1979. It should also be noted, however, that the development of a strong new company has had a short-term impact on profits which in 1980, on a pro forma basis, were below those of the prior year.

We ended the year, however, with a sense of optimism. Fourth quarter profits, although moderately less than in the prior year, were stronger than anticipated. Considerable headway was made during the year in pursuing two key objectives which are paramount in our strategy. The process of post-merger unification is a high priority effort within the Company. Also of great importance is the substantial strengthening of our balance sheet. These goals will continue to be stressed in 1981.

Sales for the year ended January 31, 1981, totalled a record $6.4 billion, an increase of 70 percent over $3.8 billion reported in the prior year. Net earnings equalled $51.6 million, up 16 percent from $44.4 million in 1979. Per share earnings amounted to $4.11 versus $4.36 in the prior year. Average common shares outstanding in 1980 were 9,804,000, an increase of 11 percent over 8,844,000 in 1979.

Among the numerous factors impacting the Company's financial performance in the past year was a substantially increased charge against income related to the Company's expanded use of the LIFO method of valuing certain inventories on a full year basis. Key financial results are summarized in "Management's Discussion and Analysis" on subsequent pages of this report.

The operating environment for retailers in 1980 was characterized by continuing economic uncertainty and a level of volatility unprecedented in recent years. To a certain extent, our broadly-based position as a retailer of essentials—drug and food merchandise—provides us with a measure of insulation from short-term economic fluctuations, but the severity of last year's recession clearly had an impact which was more apparent in some of our operating areas than in others.

Despite the difficult current economic environment, we remain very positive about the Company's future. As a major retailer, the nation's eighth largest, American Stores Company has excellent potential for growth and increased profitability. Programs are under way to strengthen the Company in key areas, both administrative and financial, in order to realize that potential.

Total corporate unification is a high priority, designed to create greater unity throughout all areas of the Company. Setting the stage for unified programs involved a great deal of hard work during the past year, and further efforts will be required throughout the current year to accomplish our goals. The task is great, and will certainly not be completed overnight. Our primary objective in achieving unification is, of course, the orderly development of what we believe will be one of the most advanced retailing companies in the nation.

American Stores Company has a very broad base, operating 1,136 stores in 28 states through four principal subsidiaries. We know that there is much to be learned from each component of our business, and therefore efforts are being made to enhance internal communication.

Finance was clearly another major focus of our efforts in 1980. Significant improvements have been effected in the balance sheet. A highlight of the year was the Company's successful sale of $75 million in ten-year notes at an interest rate of 12 percent. As a result, floating rate bank debt relating to last year's merger was eliminated and our effective interest costs reduced. Inventories have likewise been reduced and are under firm control.

The Company desires to continue to strengthen its financial condition during the current year Tight expense controls have been instituted. The capital expenditure budget, designed to promote profitable growth, is expected to approximate $110 million in 1981. The new store program contemplates the opening of thirty super stores, including ten new, large combination food and drug units and twenty supermarkets, in addition to two drug stores. At the same time, we continue to place primary emphasis upon obtaining a better financial return on assets already in place.

Looking to the future, we see excellent potential for the development of additional large combination food and drug stores in the Sun Belt area of the country. We first pioneered the development of such stores over ten years ago, and they have proven highly successful ever since. In today's fast-paced society, we believe that such stores are attuned to the needs and desires of growing numbers of consumers, particularly in view of the escalating price of gasoline and the need to reduce nonessential driving. Within the Company, we are making the administrative adjustments necessary to the more effective development and operation of such stores which represent not only what has been called the "store of the future," but also, for us, the store of today.

The outlook for 1981 is particularly shadowed by the nation's continued economic problems However, given a modestly improving economy, we anticipate that the Company will be able to achieve improved operating results over those recorded in the year just concluded

In compliance with new requirements of the Securities and Exchange Commission, the Company has incorporated almost all of its Form 10-K S.E.C. filing requirements within this annual report. The intended result is to provide shareholders with full integrated annual disclosure in a single document, and we trust that this convenient format will be responsive to the needs of investors.

Before concluding, it is important that we recognize the unparalleled contribution to both American Stores and retailing in general by James K Robinson, Jr Mr. Robinson recently retired from his position as Vice President of American Stores Company and President of American Stores Realty Corporation, after 47 years of outstanding and dedicated service. As the son of one of the founders of old American Stores, and a pioneer in modern food retailing in his own right, Mr. Robinson's contributions will continue to be in evidence throughout the Company in the years to come. Enough cannot be said about Mr. Robinson, widely known and highly regarded on both the east and west coasts. He is looked upon as a true people person—loved by the people.

Excellence is the standard which we have set for ourselves in all of our activities. As a major retailer, our mission is to provide our customers with attentive service, quality and value, and, at the same time, to earn a fair return for our shareholders. Our success in meeting those commitments reflects the quality, dedication, character and ability of the more than 62,000 individuals who form American Stores Company.

In the past two years, we have made great strides toward our goals Our franchise with the public has been strengthened. Therefore, we look to the future with confidence and enthusiasm.

Sincerely,

L S Skaggs
Chairman of the Board

John Hartman
Vice Chairman of the Board

William R Deeley
Vice Chairman of the Board

R L Shanaman
Executive Vice President

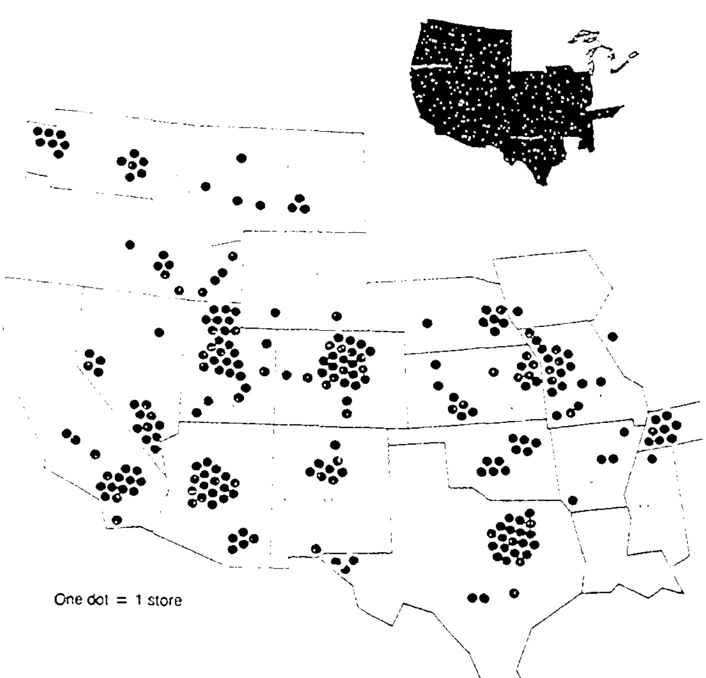
Skaggs Companies, Inc.

Skaggs Companies, Inc. operated 198 super drug centers and 48 combination grocery/drug stores at the close of the fiscal year. These stores are located in 21 states in the West, Midwest and Southwest.

Super drug centers average approximately 29,000 square feet and carry a broad range of merchandise including prescription drugs, health and beauty aids, general merchandise, cosmetics, food items and other products for home and recreational use. Standing alone, this subsidiary would be the third largest drug chain in the United States.

Skaggs Companies also pioneered the development of the first successful large combination units which brought together under one roof a complete drug store and a full grocery store, with a single bank of checkstands. Ranging in size from 46,000 square feet to 70,000 square feet, these stores provide approximately equal emphasis to food as to drug and general merchandise. It is planned that the combination store will continue to receive primary growth emphasis.

Based in Salt Lake City, Utah, Skaggs Companies, Inc. currently employs approximately 14,500 people and supports its retail units through seven distribution centers and strategically located administrative offices. Company communications and training needs to both the retail and administrative offices located over a large geographic area are facilitated and enhanced through Skaggs Telecommunications Service. Skaggs Telecommunications Service, an American Stores subsidiary, is a highly diversified telecommunications company with video production facilities.

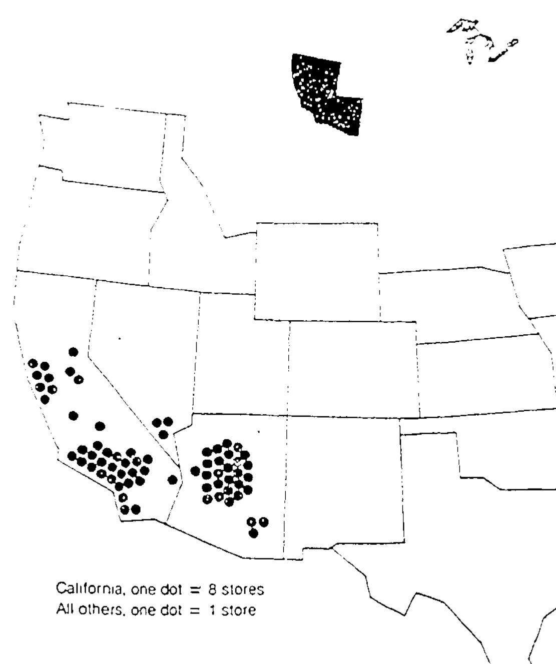


Alpha Beta Company

Alpha Beta Company is one of the leading supermarket chains in California, Arizona and Southern Nevada. At fiscal year-end, Alpha Beta operated 328 supermarkets and three combination grocery/drug stores as well as 49 Alphy's restaurants. Headquartered in La Habra, California, Alpha Beta has approximately 24,500 employees.

Alpha Beta's retail units sell a wide variety of food and general merchandise for both home and personal use, featuring both national and locally-known brands as well as many private label items. This subsidiary operates two major distribution centers and a processing facility and has office locations in both California and Arizona.

Alpha Beta opened 24 new units during the past fiscal year. The new store program is designed to emphasize larger stores carrying a greater selection of non-food and general merchandise, and the opening of large combination grocery/drug units is accelerating.

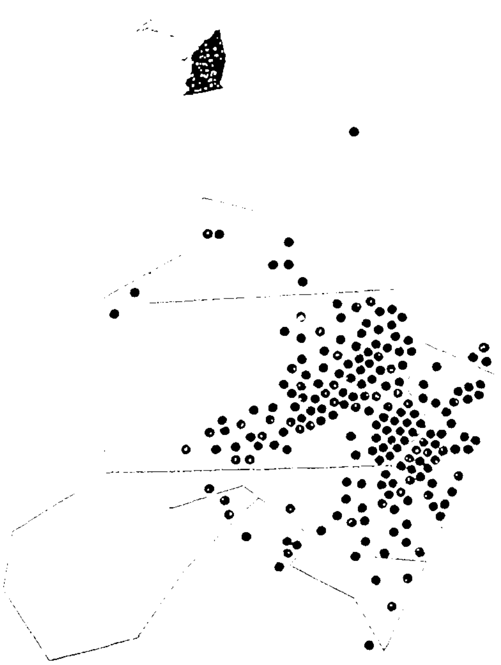


Acme Markets, Inc.

This subsidiary, headquartered in Philadelphia, Pennsylvania, operates 364 supermarkets in seven Eastern states under the Acme and Super Saver names

These supermarkets sell a wide variety of items including food and many non-food products for personal, home and family use. The stores feature national and locally-known brands as well as many private label products In support of these facilities, Acme operates seven distribution centers and four food processing facilities. The recently opened bakery, located in Philadelphia, provides the stores with a full line of baked goods, and a new general merchandise distribution center, located in Lancaster, Pennsylvania, was recently opened in support of the Company's increasing emphasis upon non-food and general merchandise items

In recent years, Acme has been engaged in a program of closing smaller, older, less efficient stores and in opening new stores and enlarging and upgrading others. The average store size exceeds 23,000 square feet, with most new stores in excess of 30,000 square feet. At the close of the fiscal year, Acme employed approximately 21,500 employees.



Delaware, Maryland, New Jersey, Pennsylvania, one dot = 3 stores
All others, one dot = 1 store

Rea and Derick, Inc.

Rea and Derick, Inc. operates 146 drug stores in Pennsylvania, New York and Maryland from its headquarters and distribution center complex in Northumberland, Pennsylvania. Most stores are full-line drug stores, including pharmacy, cosmetics, health and beauty aids, general merchandise, some food items and other sundry products for personal and home use. Store size ranges from 3,200 to almost 19,000 square feet. This subsidiary currently employs over 2,300 individuals

Pennsylvania, one dot = 3 stores
All others, one dot = 1 store

SELECTED FINANCIAL DATA

The following consolidated selected financial data of American Stores Company and subsidiaries for five years ended January 31, 1981, should be read in conjunction with the consolidated financial statements and related notes of the Company appearing elsewhere herein:

(In thousands of dollars, except per share data)	FISCAL YEAR ENDED				
	January 31, 1981	February 2, 1980 (1)(2)	December 28, 1978	December 29, 1977	December 30, 1976
Sales	**$6,419,884**	$3,786,332	$1,089,909	$899,772	$782,444
LIFO charge-net of tax	**6,818**	3,487	—	—	—
Net earnings	**51,553**	44,434	25,043	19,674	16,438
Less dividends declared on $5.51 redeemable preferred stock	**(11,220)**	(5,915)	—	—	—
Net earnings applicable to common stock	**40,333**	38,519	25,043	19,674	16,438
Average common shares outstanding	**9,804**	8,844	7,976	7,976	7,821
Earnings per common share	**$4.11**	$4.36	$3.14	$2.47	$2.10
Cash dividends per common share(3)	**.80**	.80	.725	.60	.50
Total assets at year-end	**1,292,992**	1,218,215	307,764	265,302	239,815
Long-term obligations	**392,327**	399,729	69,210	67,018	59,262
Redeemable preferred stock	**118,110**	118,110	—	—	—

(1) Includes results of former American Stores Company from date of merger July 26, 1979. The Company changed its fiscal year in 1979 to the Saturday closest to January 31. See "Merger" in notes to consolidated financial statements for additional details.

(2) 53 weeks

(3) For restriction on common dividends, see "Long-term Debt" in notes to consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Inflation and recession continued to pose serious problems for retailers in 1980. While sales throughout the Company varied in strength, all of the Company's subsidiaries showed higher sales in 1980 versus 1979; as well as 1979 versus 1978. However, the sales increase in stores open more than one year has been lower in 1980 than in 1979. American Stores Company's profits were impacted by lower than expected sales in some areas, and increased operating expenses, primarily in payroll related items as well as costs associated with utilities.

Sales and Earnings

The increase in reported level of sales and net earnings for both 1980 and 1979 when compared to the prior years is primarily caused by the inclusion following the merger of former American Stores Company's results with those of the Company for all of the past year and six months of 1979. Net earnings in 1980 advanced by 16% to $51,553,000 compared to $44,434,000 reported in 1979. However, the earnings per common share for the same period decreased 6% to $4.11 compared with $4.36 in 1979 Net earnings in 1979 posted a 77% gain over $25,043,000 reported in 1978 Earnings per common share for 1979 were up 39% over the $3.14 reported in 1978.

The earnings per common share increased less than net earnings because of the additional common shares outstanding and the impact of preferred dividends associated with stock issued in the merger. Included in the Notes to Consolidated Financial Statements under "MERGER" are pro forma operating results which show 1979 and 1978 as if the Companies had been combined.

As a result of the merger, the reported sales and net earnings are not directly comparable. However, there are several items which have impacted the comparability of 1980, 1979, and 1978's results of operations which are worth noting.

LIFO

First, the Company has increased its use of LIFO (last-in, first-out) method of valuing certain inventory. In the current year, the after tax LIFO charge amounts to $6,818,000 or $.70 per common share compared to $3,487,000 for 1979 or $.39 per common share. There was no LIFO charge in 1978. Former American Stores Company's subsidiaries have used the LIFO method of valuing certain inventory for some time. However, since the results of former American Stores subsidiaries are reflected only since the merger date, the LIFO charge for

Management's Discussion (cont.)

1979 was included for only one-half of the year. The 1980 LIFO charge reflects for the first time, a charge for similar inventories at Skaggs Companies, Inc.

Capitalized Interest

Also, during the current year the Company started capitalizing interest costs associated with long-term construction projects. This change was made to comply with a change in generally accepted accounting principles. The net of tax credit to earnings in the current year amounted to $2,614,000 or $.27 per common share.

Merger

Earnings for 1979 include $.27 per common share representing the equity in the earnings of former American Stores Company for the two-month period prior to the merger date when the Company owned approximately 46% of former American Stores Company's stock.

LIQUIDITY AND SOURCES OF CAPITAL

To finance the acquisition of former American Stores Company on July 26, 1979, the Company borrowed $139,500,000 from a group of banks, issued redeemable preferred stock with a value of $118,110,000 and common stock with a value of $50,596,000. As a result, comparison of post-merger balance sheets with pre-merger balance sheets is not meaningful. However, the borrowing and issuance of stock did affect the Company's financial ratios. Because of the magnitude of the current assets and current liabilities assumed in the merger with former American Stores Company, the Company's working capital ratio in 1980 and 1979 is lower than in 1978. The total working capital has also increased significantly. Both of these changes, while significant, have brought the Company ratio in line with ratios of other retailers of comparable size.

Working Capital

Working capital and the current ratio at January 31, 1981 were $133,429,000 and 1.27 to 1 compared to $139,095,000 and 1.30 to 1 at February 2, 1980. The working capital and current ratios remained relatively constant in 1980, primarily reflecting the Company's efforts to control inventory levels during the year. Maintaining these ratios was a major achievement in view of the 19 net new stores that were added to the Company during that period, representing a net increase of approximately 4.7% in total store square footage. Other components of working capital have maintained levels similar to those of the previous year.

Short-term Borrowings

The Company uses short-term borrowings to finance seasonal inventory build ups and interim construction costs. During 1980, the average amount of short-term borrowing was $15,431,000 with an average interest rate

of 15.05% compared to $12,521,000 and 12.11% for 1979 and $5,833,000 and 9.63% for 1978. The maximum short-term borrowings outstanding during each year was $69,100,000 in 1980, $22,500,000 in 1979 and $20,000,000 in 1978. There were no short-term borrowings outstanding at year-end. The increase in average borrowings was a result of a more aggressive real estate program in the current year as well as a lower average level of excess cash. At January 31, 1981, the Company had available $129,400,000 in short-term bank lines of credit. In addition, the Company had unused revolving credit lines, with long-term maturities, totalling $50,000,000. The Company believes that these lines of credit are adequate to meet fluctuations in cash needs over the next several years.

Long-term Debt

In 1980 the Company's proceeds from long-term borrowings were $110,244,000 compared to $192,726,000 in 1979 and $4,866,000 in 1978 The largest of these borrowings in 1980 was a $75,000,000, 10-year 12% note offering These funds were used to refinance bank borrowings connected with the merger This borrowing not only lowered the Company's effective interest cost, but also reduced the current maturities of long-term debt by approximately $30,000,000. Included in borrowings discussed above, the Company borrowed $11,244,000 in 1980, $53,226,000 in 1979 and $4,866,000 in 1978 to support annual capital expenditure programs. The Company has traditionally used long-term leases to arrange desirable financing of certain land and buildings. Obligations totalling $14,740,000 in 1980 and $8,303,000 in 1979 associated with these leases were capitalized.

Debt to Equity

In an effort to strengthen the Company's debt-to-equity ratio, the Company has paid off $66,085,000 in long-term debt and obligations under capital leases in 1980, $40,849,000 in 1979, and $2,674,000 in 1978. These reductions are net of replacement debt but include the payment of current maturities associated with long-term borrowings. Because of these pay-downs, long-term debt and capitalized leases decreased $7,402,000 in 1980. Common shareholders' equity increased $33,122,000 in 1980 over 1979. This improvement coupled with the decrease in long-term borrowings and obligations under capital leases reduced the debt to common shareholders' equity ratio to 1.61 to 1 in 1980 versus 1.90 to 1 in 1979. The Company's long-term commitment is to strengthen this ratio even further by reducing capital expenditures from the current level of $140,000,000 in 1980 to approximately $110,000,000 for 1981. Management believes this reduction in capital expenditures, along with

Management's Discussion (cont.)

increased earnings, will enable the Company to continue improving its debt-to-equity ratio without affecting the Company's competitive position.

REPLACEMENT COSTS

In the Notes to Consolidated Financial Statements under the caption "SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)" is a discussion of the effects of inflation using measurement basis developed by the Financial Accounting Standards Board. Explanatory comments are included in those disclosures on the effect of changing prices on the Company's operations.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
American Stores Company
Salt Lake City, Utah

We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of January 31, 1981 and February 2, 1980, and the related consolidated statements of earnings, common shareholders' equity, and changes in financial position for each of the three fiscal years in the period ended January 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of American Stores Company and subsidiaries at January 31, 1981 and February 2, 1980, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended January 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for interest costs as described in, "Changes in Accounting Methods," in the notes to consolidated financial statements.

Ernst & W

Los Angeles, California
March 13, 1981

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of dollars, except per share data)

Fiscal Years Ended January 31, 1981, February 2, 1980, and December 28, 1978

	52 Weeks 1980	53 Weeks 1979	52 Weeks 1978
Sales	**$6,419,884**	$3,786,332	$1,089,909
Cost of merchandise sold, including warehousing and transportation expenses	**4,990,764**	2,926,123	810,063
Gross profit	**1,429,120**	860,209	279,846
Operating, general and administrative expenses	**1,303,683**	762,736	228,462
Operating profit	**125,437**	97,473	51,384
Other deductions (income):			
Interest expense	**45,256**	34,852	6,289
Other income	**(11,915)**	(11,283)	(2,708)
	33,341	23,569	3,581
Earnings before income taxes	**92,096**	73,904	47,803
Federal and state income taxes	**40,543**	29,470	22,760
Net earnings	**$ 51,553**	$ 44,434	$ 25,043
Average common shares outstanding	**9,804**	8,844	7,976
Net earnings per common share	**$4.11**	$4.36	$3.14

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands of dollars)

	January 31, 1981	February 2, 1980
Current Assets		
Cash	**$ 2,022**	$ 37,552
Temporary cash investments	**27,812**	15,841
Receivables	**36,795**	32,941
Inventories, at lower of cost or market	**534,225**	495,177
Prepaid expenses	**23,588**	20,001
Properties to be developed and sold within one year	**9,876**	7,939
Total current assets	**634,318**	609,451
Property, Plant, and Equipment, at cost		
Land	**42,477**	40,810
Buildings	**95,959**	80,042
Machinery, equipment, and fixtures	**380,629**	309,060
Leasehold costs and improvements	**96,078**	76,117
	615,143	506,029
Less accumulated depreciation and amortization	**134,129**	77,144
Net property, plant, and equipment	**481,014**	428,885
Property Under Capital Leases, less accumulated amortization of $39,657 in 1980 and $28,427 in 1979	**149,261**	150,103
Other Assets	**28,399**	25,415
Deferred Income Tax Benefits	**—**	4,361
	$1,292,992	$1,218,215

LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)

	January 31, 1981	February 2, 1980
Current Liabilities		
Current maturities of long-term debt	**$ 3,489**	$ 36,187
Current obligations under capital leases	**9,620**	9,074
Trade accounts payable	**311,050**	253,340
Other accrued liabilities	**87,411**	100,220
Accrued wages payable	**67,562**	50,835
Federal and state income taxes	**21,757**	18,459
Construction and other loans on properties to be sold	**—**	2,241
Total current liabilities	**500,889**	470,356
Long-term Debt, less current maturities	**221,249**	230,423
Obligations Under Capital Leases, less current portion	**171,078**	169,306
Other Liabilities	**35,317**	19,274
Deferred Income Taxes	**2,481**	—
$5.51 Cumulative Redeemable Preferred Stock of $1 par value. Authorized 2,450,000 shares; issued 2,036,372 shares at redemption value	**118,110**	118,110
Common Shareholders' Equity		
Common stock of $1 par value. Authorized 11,000,000 shares, issued 10,000,698 shares	**10,001**	10,001
Paid-in capital	**95,471**	96,273
Retained earnings	**142,892**	110,423
Less cost of common treasury stock; 178,904 shares in 1980 and 236,836 shares in 1979	**(4,496)**	(5,951)
Total common shareholders' equity	**243,868**	210,746
	$1,292,992	$1,218,215

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)

Fiscal Years Ended January 31, 1981, February 2, 1980, and December 28, 1978

		52 Weeks 1980	53 Weeks 1979	52 Weeks 1978
Sources of Funds	Net earnings	**$ 51,553**	$ 44,434	$ 25,043
	Add items charged against earnings not affecting working capital:			
	Depreciation and amortization	**75,079**	41,218	11,285
	Deferred income taxes	**8,224**	(1,360)	(1,350)
	Other	**1,137**	(789)	87
	Total from operations	**135,993**	83,503	35,065
	Proceeds from long-term borrowing	**110,244**	192,726	4,866
	Additions to obligations under capital leases	**14,740**	8,303	—
	Disposals of owned properties	**23,999**	6,441	5,869
	Disposals of leased properties	**2,804**	8,320	—
	Issuance of preferred stock	**—**	118,110	—
	Issuance of common stock	**—**	50,889	—
	Increase in other liabilities	**10,398**	5,206	—
	Other, net	**1,595**	(6,210)	218
		299,773	467,288	46,018
Uses of Funds	Non-current assets (principally property, plant, and equipment) of former American Stores Company acquired in merger	**—**	393,487	—
	Less long-term debt and other obligations assumed	**—**	220,003	—
		—	173,484	—
	Expended for property, plant, and equipment	**139,229**	122,132	36,989
	Additions to property under capital leases	**14,740**	8,303	—
	Reduction of long-term debt	**119,418**	61,427	577
	Reduction of obligations under capital leases	**12,968**	15,149	2,097
	Cash dividends	**19,084**	14,101	5,783
	Purchase of treasury stock	**—**	6,380	—
		305,439	400,976	45,446
	(Decrease) increase in working capital	**$ (5,666)**	$ 66,312	$ 572

Changes in Components of Working Capital

(In thousands of dollars)

	52 Weeks 1980	53 Weeks 1979	52 Weeks 1978
Increase (decrease) in current assets:			
Cash and temporary cash investments	**$(23,559)**	$ 48,276	$ (3,212)
Inventories	**39,048**	344,436	25,361
Other	**9,378**	49,643	(633)
	24,867	442,355	21,516
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	**(32,698)**	35,728	(15)
Current obligations under capital leases	**546**	6,704	168
Accounts payable and accrued liabilities	**61,628**	224,781	12,478
Other	**1,057**	108,830	8,313
	30,533	376,043	20,944
(Decrease) increase in working capital	**$ (5,666)**	$ 66,312	$ 572

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Fiscal Years Ended January 31, 1981, February 2, 1980, and December 28, 1978

(In thousands of dollars)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balances at December 29, 1977	$ 7,987	$47,816	$59,352	$ (179)	$114,976
Net earnings for the 52 weeks ended December 28, 1978			25,043		25,043
Common dividends— $.725 a share			(5,783)		(5,783)
Amortization of deferred compensation		87			87
Balances at at December 28, 1978	7,987	47,903	78,612	(179)	134,323
Net earnings for the four weeks ended January 25, 1979			1,478		1,478
Net earnings for the 53 weeks ended February 2, 1980			44,434		44,434
Issuance of 2,013,787 common shares in merger	2,014	48,582			50,596
Purchase of 250,450 common treasury shares				(6,380)	(6,380)
Issuance of 24,147 common shares from treasury upon exercise of stock options		(315)		608	293
Common dividends— $ .80 a share			(8,186)		(8,186)
Preferred dividends— $3.465 a share			(5,915)		(5,915)
Amortization of deferred compensation		103			103
Balances at February 2, 1980	$10,001	$96,273	$110,423	$(5,951)	$210,746

(In thousands of dollars)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total
Net earnings for the 52 weeks ended January 31, 1981			$ 51,553		$ 51,553
Issuance of 57,932 common shares from treasury upon exercise of stock options		$ (792)		$ 1,455	663
Common dividends— $ .80 a share			(7,864)		(7,864)
Preferred dividends— $5.51 a share			(11,220)		(11,220)
Amortization of deferred compensation . .		(10)			(10)
Balances at January 31, 1981	$10,001	$95,471	$142,892	$(4,496)	$243,868

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

Business

The Company, through its subsidiaries, is engaged primarily in the operation of retail stores selling food and drug merchandise.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made for the prior year to conform to the current year presentation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of grocery inventories. Cost of the balance of grocery inventories and all other inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation and Amortization

Depreciation and amortization, including amortization of property under capital leases, charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings in the year in which they are incurred. When operations are discontinued and a store is closed, the remaining investment in fixtures and improvements, net of expected salvage, is charged against earnings and provision made for the remaining liability under the lease, net of expected sublease recovery.

Income Taxes

The Company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes.

The Company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to 30 years. The Company's policy is to fund pension costs accrued to the extent they are currently deductible for income tax purposes.

Net Earnings Per Common Share

Net earnings per common share are determined by dividing the weighted average number of common shares outstanding during the year into net earnings after deducting dividends attributable to preferred shares.

Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

CHANGE IN FISCAL YEAR

During 1979, the Company changed the closing date of the fiscal year from the Thursday nearest December 31 to the Saturday nearest January 31. Results for the month of January 1979, which have been credited directly to retained earnings, were: sales $88,426,000, earnings before taxes $2,768,000, income taxes $1,290,000, and net earnings $1,478,000 ($.19 per share) Fiscal years are identified by reference to the calendar year in which such fiscal years commence.

MERGER

On May 7, 1979, the Company acquired 46 percent of the outstanding common stock of former American Stores Company for $141,844,000 in cash. Subsequently, on July 26, 1979, the remaining 54 percent was acquired in exchange for 2,036,372 shares of $5.51 cumulative redeemable preferred stock with a redemption value of $58 or a total value of $118,110,000 and 2,013,787 shares of common stock with a market value of $50,596,000. The total purchase price was $315,351,000.

The merger has been accounted for as a purchase and, accordingly, results of former American's operations have been included in the accompanying financial statements since July 27, 1979. The purchase price of former American Stores Company approximated the value assigned to the net assets at date of acquisition. For the period from May 7, 1979 to July 26, 1979, the Company's 46 percent investment was accounted for under the equity method of accounting Former American Stores Company was primarily an operator of retail stores selling food and drug merchandise

The following pro forma summary combines the results of operations of the Company and former American Stores Company as if the acquisition had taken place on December 29, 1977. The data reflects, among other things, interest on funds expended to acquire the 46 percent interest in former American. Earnings per common share computations give effect to dividend requirements of the preferred stock.

Notes to Consolidated Financial Statements (cont.)

MERGER (cont.)

(In thousands of dollars, except per share data)

	1979	1978
Net sales	$6,120,963	$5,138,404
Net earnings	62,782	50,447
Net earnings per common share	$5.29	$4.03

INVENTORIES

The dry grocery inventories of certain of the Company's subsidiaries are valued at last-in, first-out (LIFO) cost. Such inventories amount to $179,495,000 at January 31, 1981 and $144,954,000 at February 2, 1980. The inventories subject to LIFO at February 2, 1980 were those of former American Stores Company subsidiaries acquired in the merger. The January 31, 1981 amount also includes dry grocery inventories of a subsidiary, Skaggs Companies, Inc., which were changed to the LIFO method of valuation as of the beginning of the current year. If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been $48,870,000 and $35,234,000 higher at January 31, 1981 and February 2, 1980, respectively. The LIFO charge to earnings, before income taxes, was $13,636,000 in 1980 ($2,845,000 applicable to Skaggs Companies, Inc.) and $6,974,000 in 1979.

SHORT-TERM BORROWINGS

Under lines of credit arrangements for short-term borrowings with a group of banks, the Company may borrow up to $129,400,000 on such terms as the Company and the banks may mutually agree. These arrangements are reviewed annually for renewal.

In connection with these lines of credit, the Company has agreed to maintain approximately $3,480,000 in average compensating balances. The compensating balances also reduce charges for normal bank services provided the Company. Compensating balances are not restricted as to withdrawal. In the event the lines are drawn upon, additional cash balances may be required by the banks.

LONG-TERM DEBT

(In thousands of dollars)

A summary of long-term debt is as follows:

American Stores Company	January 31, 1981	February 2, 1980
Notes payable, 12%, due 1990	**$ 75,000**	—
Sinking fund debentures:		
9-3/8% due 1982 through 2001	**50,000**	$ 50,000
9-7/8% due through 1990	**14,539**	16,236
Notes payable to commercial banks, aggregate interest and compensating fees not to exceed 112% of prime, due through 1984	**—**	109,000
Revolving credit notes payable to banks, interest rate at prime	**5,000**	10,000
Other	**4,000**	11,000
	148,539	196,236
Subsidiaries		
Loans secured by real estate, interest rates from 4-3/4% to 10-1/4% due through 2004	**76,199**	70,374
	224,738	266,610
Less current maturities	**3,489**	36,187
Long-term	**$221,249**	$230,423

The aggregate amounts of long-term debt maturing in each of the next five fiscal years are:

(In thousands of dollars)

1981	$ 3,489
1982	23,559
1983	6,848
1984	7,570
1985	7,754

During the current year the Company issued $75,000,000 in notes due in 1990. The notes may not be redeemed by the Company prior to June 1, 1987. Thereafter, the notes are redeemable at the option of the Company, in whole or in part, at any time prior to maturity at a price equal to 100% of principal amount plus accrued interest to the redemption date. The proceeds from the sale of the notes were used to reduce the notes payable to commercial banks.

The notes payable to commercial banks were renegotiated on September 30, 1980 and converted to a revolving credit and term loan agreement. This new agreement contains the most restrictive loan covenants

Notes to Consolidated Financial Statements (cont.)

LONG-TERM DEBT (cont.)

which apply to, among other things, shareholders' equity, working capital, debt-to-equity ratio, and capital expenditures. In addition, common dividends on a rolling four-quarter basis are restricted to 20% of net earnings for the same period plus $10,000,000. Retained earnings of $12,446,000 at January 31, 1981 are available for payment of common dividends under this agreement. At January 31, 1981 under this and one other revolving credit and term loan agreement with a commercial bank, totalling $55,000,000, there was $5,000,000 outstanding. Any borrowings outstanding as of December 31, 1983 will be converted into a four-year term loan.

The various loans secured by real estate are collateralized by properties with a carrying value of $72,776,000.

LEASES

The Company and subsidiaries lease a majority of the retail stores and certain distribution facilities with initial terms ranging from 15 to 25 years, plus renewal options. Certain store leases provide for additional rentals based on sales volume in excess of specified levels.

The Company has classified its leases as either capital or operating. The summary below shows the aggregate future minimum rental commitments as of January 31, 1981, for both capital and operating leases:

(In thousands of dollars)

FISCAL YEAR	OPERATING LEASES	CAPITAL LEASES
1981	$ 38,503	$ 27,010
1982	36,494	26,414
1983	34,471	25,463
1984	32,203	24,313
1985	30,403	23,446
Thereafter	346,516	227,850
Total minimum rental commitments	$518,590	354,496
Less executory costs (such as taxes, insurance, and maintenance) included in capital leases		13,096
Net minimum lease payments		341,400
Less amount representing interest		160,702
Obligations under capital leases, including $9,620,000 due within one year		$180,698

Rental expense was as follows:

	MINIMUM RENTALS	RENTALS BASED ON SALES	TOTAL RENTALS
1980	**$56,284**	**$15,359**	**$71,643**
1979	27,601	7,573	35,174
1978	11,968	1,846	13,814

(In thousands of dollars)

INCOME TAXES

Federal and state income taxes charged to earnings are summarized below:

	1980	1979	1978
Current:			
Federal	**$24,769**	$26,711	$22,063
State	**7,550**	4,119	2,047
Deferred:			
Federal	**8,699**	(1,210)	(1,350)
State	**(475)**	(150)	—
	$40,543	$29,470	$22,760

(In thousands of dollars)

The provision for federal income taxes differs from the amount which would be provided by applying the statutory rate (46% in 1980 and 1979 and 48% in 1978) to earnings before income taxes as follows:

	1980	1979	1978
Tax expense computed at statutory federal income tax rate	**$42,364**	$33,996	$22,946
State income taxes, net of federal income tax	**3,820**	2,144	1,064
Investment tax credits	**(7,963)**	(6,634)	(1,228)
Other	**2,322**	(36)	(22)
	$40,543	$29,470	$22,760
Effective income tax rate	**44.0%**	39.9%	47.6%

(In thousands of dollars)

Deferred income tax expense resulted from the following:

	1980	1979	1978
Accelerated depreciation for tax purposes	**$5,975**	$1,618	$ 246
Reserves for self-insurance	**(2,466)**	(3,133)	(981)
Capitalized interest	**2,614**	—	—
Other	**2,101**	155	(615)
	$8,224	$(1,360)	$(1,350)

(In thousands of dollars)

Notes to Consolidated Financial Statements (cont.)

INCOME TAXES (cont.)

Federal income tax returns of the Company for all years prior to 1978 and federal income tax returns of former American Stores Company prior to 1975 have been examined by the Internal Revenue Service and all issues have been agreed to for settlement.

STOCK OPTION PLAN

On May 21, 1975, the shareholders approved a stock option plan for employees, reserving 750,000 shares of common stock. This plan permits the granting of both qualified and nonqualified options. The Company has granted stock options to employees at prices ranging from $.67 to $19.50 a share for nonqualified options and $18.25 a share for qualified options. In 1978, the shareholders approved an amendment to the 1975 plan providing for Stock Appreciation Rights.

Pursuant to the Merger Agreement between the Company and former American Stores Company, the Company assumed the former American stock option plan with appropriate adjustments to number of shares and exercise prices to give effect to the merger. As adjusted, American stock options are exercisable at prices ranging from $11.18 to $14.08 for qualified stock options and $13.96 for non-qualified stock options.

Under the above described plans, qualified stock options are exercisable on a cumulative basis of ten years or less. Compensation expense recognized was $51,000, $304,000 and $87,000 for 1980, 1979, and 1978, respectively. Amounts deferred for future amortization under non-qualified stock option grants at less than market value were $391,214 at January 31, 1981 and $476,000 at February 2, 1980. At January 31, 1981 and February 2, 1980, options for 36,463 and 98,921 shares, respectively, were exercisable. A summary of changes in shares under option follows:

	1980	1979	1978
Outstanding at beginning of year...	**498,803**	352,519	373,119
Former American Stores Company options assumed...	**—**	180,231	—
Exercised..........	**(58,043)**	(24,297)	(950)
Forfeited..........	**(39,357)**	(9,650)	(19,650)
Outstanding at end of year.....	**401,403**	498,803	352,519
Average option price per share....	**$16.53**	$15.61	$16.85
Reserved for future grant.......	**614,807**	575,450	396,231

PENSION PLANS

Substantially all of the employees of the Company and its subsidiaries are covered under pension plans. Employees who are members of bargaining units are covered by their respective plans. For other eligible employees, the Company provides pension benefits through several plans. The actuarially computed value of accumulated benefits of Company sponsored plans, as estimated by consulting actuaries at the dates of latest valuation in 1980 using an interest rate of 6% and the net assets available for benefits are listed below. Similar information is not available to the Company for the multi-employer plans discussed above.

Actuarial present value of accumulated benefits:

(In thousands of dollars)

Vested	**$105,464**
Nonvested	**8,735**
	$114,199
Net assets available for benefits	**$116,192**

The amount charged to expense for all plans was $53,225,000, $26,790,000, and $2,029,000 for 1980, 1979, and 1978, respectively.

LITIGATION

As previously reported, in addition to various claims and litigation arising in the normal course of business, the Company has been named defendant in 18 civil suits filed against the Company and/or former American Stores Company and numerous other defendants by certain purported producers and feeders of cattle alleging certain violations of the antitrust laws with respect to the purchase and sale of beef. Most of said cases were consolidated for pre-trial proceedings in the Dallas Division of the U.S. District Court for the Northern District of Texas where the court dismissed the consolidated cases on the basis of the decision of the U.S. Supreme Court in ILLINOIS BRICK CO. V. ILLINOIS, 431 U.S. 720 (1977). Upon appeal, the Fifth Circuit Court of Appeals, as previously reported, reversed the dismissal. The plaintiffs and the defendants both sought review of this action by the U.S. Supreme Court, which denied, on October 14, 1980, the Petitions for Writs of Certiorari filed by the respective parties and remanded the case to the District Court in Dallas for further pre-trial proceedings.

Since the proceedings in these cases have not yet

Notes to Consolidated Financial Statements (cont.)

progressed beyond the early stages of discovery, the Company cannot predict the ultimate outcome. However, management believes that no basis exists for the allegations made against the Company in these complaints and that it is unlikely that these lawsuits will materially affect the consolidated earnings and financial position of the Company.

QUARTERLY RESULTS (UNAUDITED)

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included.

(In thousands of dollars, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1980					
Sales	**$1,531,629**	**$1,579,494**	**$1,588,027**	**$1,720,734**	**$6,419,884**
Cost of merchandise sold	**1,185,790**	**1,230,374**	**1,238,933**	**1,335,667**	**4,990,764**
Net earnings	**12,630**	**13,231**	**7,162**	**18,530**	**51,553**
Net earnings per common share	**1.01**	**1.06**	**.44**	**1.60**	**4.11**
1979					
Sales	302,389	325,647	1,450,786	1,707,510	3,786,332
Cost of merchandise sold	225,550	241,844	1,131,935	1,326,794	2,926,123
Net earnings	6,125	7,811	10,840	19,658	44,434
Net earnings per common share	.77	1.00	.80	1.79	4.36

SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)

The following information is presented in accordance with the principles of inflation accounting enumerated in Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. The information attempts to show the impact of changing prices on certain historical financial data. Because the required disclosures are experimental in nature, several different approaches to presenting the data have been mandated which are outlined in the following paragraphs.

The first approach adjusts the historical cost financial statement dollars to dollars of the same general purchasing power. For example, if the inflation rate is five percent from one year to the next year, then five percent more dollars are needed in the second year to maintain the same general purchasing power. This adjustment to

common units of measurement—constant dollars—is accomplished by using an index which measures inflation. Statement 33 prescribes the use of the Consumer Price Index for All Urban Consumers. Therefore, the constant dollar method starts with historical dollars as recorded using generally accepted accounting principles and adjusts these dollars to reflect changes in purchasing power (inflation) using a consumer price index. Under this constant dollar approach, the assets acquired and liabilities assumed in the merger with former American Stores Company, as well as its post-merger operations, have been adjusted using the Consumer Price Index from the purchase date, July 26, 1979.

In a second method, the accompanying data are also adjusted to reflect current costs of inventory and property, plant, and equipment which have generally increased over time at a rate different from that of the Consumer Price Index. Current replacement costs have been used to value these items; i.e., the specific prices applicable at year-end 1980 to replace inventory and property, plant, and equipment.

In its historical cost financial statements the Company determines cost of a majority of its inventories using either the first-in, first-out (FIFO) or average cost methods. The last-in, first-out (LIFO) method is used to value all other inventories and for purposes of estimating current cost, such LIFO inventories have been stated at the lower of equivalent FIFO cost or replacement market. Because of the rapid turnover of inventories and the use of LIFO costing for certain items, the cost of merchandise sold, as shown in the financial statements normally approximates current cost at the time of sale. However, such amounts have been adjusted, where appropriate, for the effects of inflation during the time lag between purchase and sale of merchandise.

For the most part, the replacement data represent replacement in-place and in-kind. No consideration has been given to the replacement of assets with a different type, to improved operating cost efficiencies of replacement assets and similar situations. The replacement costs used, while believed reasonable, are necessarily subjective. They do not necessarily represent amounts for which the assets could be sold or costs which will be incurred in future periods, or the manner in which actual replacement of assets will occur. Land has been valued based on estimated current market prices.

Notes to Consolidated Financial Statements (cont.)

SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED) (cont.)

The current costs of the other property, plant, and equipment, including buildings under capitalized lease obligations, were developed as follows:

For all other fixed assets, a review of buildings under construction or completed during 1980 was performed to determine actual current cost per square foot for each location for building and equipment costs. The current cost for nonretail facilities was determined through specific identification where possible, or the use of indices applicable to the type of asset being valued.

In developing current costs of assets acquired in the merger with former American Stores Company, construction costs were determined as discussed in the preceding paragraph. The increase in these costs since July 26, 1979 (the merger date) were used to develop indexes of construction costs which have been applied to the costs compared to those assets at the merger date.

Depreciation adjustments, under both the general purchasing power and current cost approaches, have maintained the same methods, useful lives, and salvage values as used in computing historical cost depreciation.

As a part of this footnote, there are several tables included to demonstrate the impact of inflation on the Company's financial statements. The first table provides the net changes in earnings, as reported in historical cost financial statements, to adjust for the effects of general inflation and specific prices.

Statement 33 requires that income taxes paid not be modified for the effects of either constant dollar or specific adjustments. Therefore, the effective income tax rate based on historical earnings increases when compared with constant dollar results and specific price earnings. This increase points up the serious impact on earnings of income taxes in an inflationary economy.

This table also provides the changes in value which occurred during the year. The first is the unrealized benefit, applicable to both methods, due to inflation with resulting decline in purchasing power of the net monetary amounts owned. A monetary asset is money or a claim to receive a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services. A monetary liability is an obligation to pay a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services. Therefore, cash, temporary cash investments, receivables, current liabilities, and long-term debt are monetary items. Since the monetary liabilities at year-end 1980 were larger than the monetary assets, an

unrealized benefit is shown.

The second adjustment is applicable only to the specific price method and is the increase in value during the year due to increases in the specific prices for inventory and property, plant, and equipment compared to that which is attributed to the increase in value due to the effect of general inflation.

The second table presents values of inventories and property, plant, and equipment on the historic cost basis as adjusted for specific price increases at January 31, 1981.

The third table is a five-year summary of results adjusted for the effects of general inflation and for changes in specific prices. For the years 1976 through 1978 only information applicable for sales, per share dividends, per share market price at year-end, and the average consumer price index has been shown because this information covering inventories and property, plant, and equipment is not available at a cost management feels justifies the results.

Notes to Consolidated Financial Statements (cont.)

Consolidated statement of earnings and other changes in ownership interest adjusted for changing prices for the fiscal year ended January 31, 1981

(In thousands of dollars)

Results of Operations

		Adjusted for	
	As Reported	General Inflation	Specific Prices
Sales	$6,419,884	$6,419,884	$6,419,884
Costs and expenses:			
Cost of merchandise sold	4,990,764	5,021,824	4,993,808
Depreciation and amortization	75,079	88,357	88,840
Other costs	1,261,945	1,261,945	1,261,945
Total costs	6,327,788	6,372,126	6,344,593
Earnings before income taxes	92,096	47,758	75,291
Income taxes	40,543	40,543	40,543
Net earnings	$51,553	$7,215	$34,748
Effective income tax rate	44.0%	84.9%	53.8%

Changes in Carrying Value

Increase in current cost of inventories and property, plant, and equipment	$110,272
Less effect of increases in the general price level	131,530
Excess of increases in general price level over increases in the specific prices	$21,258

Inventory and property, plant, and equipment adjusted for changes in specific prices at January 31, 1981

(In thousands of dollars)

	As Reported	As Adjusted
Inventories	$534,225	$586,139
Property, plant, and equipment and property under capital leases, net	630,275	779,253

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices
(In thousands of dollars, except per share data)

	1980	1979	1978	1977	1976
Sales					
As reported	**$6,419,884**	$3,786,332	$1,089,909	$ 899,772	$ 782,444
Adjusted for general inflation	**6,419,884**	4,291,061	1,389,439	1,234,894	1,143,148
Net earnings					
As reported	**51,553**	44,434			
Adjusted for general inflation	**7,215**	8,584			
Adjusted for specific price changes	**34,478**	31,012			
Earnings (loss) per share data					
As reported	**4.11**	4.36			
Adjusted for general inflation	**(.41)**	.22			
Adjusted for specific price changes	**2.37**	2.74			
(Deficiency) excess of increase in specific prices over increase in the general price level	**(21,258)**	28,402			
Purchasing power gain from holding net monetary liabilities	**87,800**	56,578			
Net assets at year-end					
As reported	**361,978**	328,856			
Adjusted for general inflation	**518,821**	438,938			
Adjusted for specific price changes	**547,745**	498,240			
Cash dividends declared per common share					
As reported	**.80**	.80	.725	.60	.50
Adjusted for general inflation	**.80**	.91	.92	.82	.73
Market price per common share at year-end					
Historical amount	**$23.38**	$28.25	$27.875	$25.25	$22.88
Adjusted for general inflation	**$23.38**	$32.02	$35.53	$34.65	$33.42
Average consumer price index	**249.1**	219.8	195.4	181.5	170.5

Notes to Consolidated Financial Statements (cont.)

CHANGES IN ACCOUNTING METHODS

In accordance with pronouncements of the Financial Accounting Standards Board, the Company changed its methods of accounting for capitalizing interest costs associated with long-term construction projects and for compensated absences of employees During 1980, interest cost incurred totalled $50,484,000 of which $5,228,000 was capitalized, resulting in an increase in net earnings of $2,614,000 or $.27 per common share

Retained earnings as of December 29, 1977 have been reduced $3,391,000 to give effect to the accrual for compensated absences of employees as of that date. The accrual for former American Stores Company subsidiaries as of July 26, 1979 has been reflected in the value assigned to the net assets of former American Stores Company at date of merger. The effect on net earnings was not material.

REDEEMABLE PREFERRED STOCK

The Company's redeemable preferred stock was issued in connection with the merger. The preferred stock is not redeemable until July 26, 1984 Thereafter, it is redeemable in whole or in part, at the option of the Company, at $58 per share plus accrued dividends Following July 26, 1989, the Company is required to redeem 5% of the number of shares initially outstanding at $58 per share plus accrued dividends.

The redeemable preferred stock has preferential and cumulative dividends at a rate of $5.51 per share plus liquidation preference at $58 per share plus accrued dividends over the holders of common stock.

COMMON STOCK MARKET PRICES AND DIVIDENDS

The market price range on the New York Stock Exchange and the dividends declared on the Company's common stock are set forth in the table below. The common and preferred shares of the Company are listed on the New York, Philadelphia, and Pacific Stock Exchanges under the trading symbol ASC. The number of shareholders of the Company's common stock at March 25, 1981 was 12,230.

	YEAR ENDED					
	January 31, 1981			February 2, 1980		
	Sales Price High	Sales Price Low	Cash Dividends Declared	Sales Price High	Sales Price Low	Cash Dividends Declared
First Quarter	**28 1/2**	**20 1/4**	**$.20**	28 1/2	24 1/4	$.20
Second Quarter	**29 7/8**	**23 1/4**	**.20**	26 3/4	24	.20
Third Quarter	**30 1/2**	**26 1/2**	**.20**	32 1/8	23 1/2	.20
Fourth Quarter	**28 1/8**	**20 3/4**	**.20**	34 1/2	25 1/2	.20

American Stores Company Board of Directors

William R. Deeley[1,4]
Vice Chairman of the Board

Thomas W. Field, Jr.
President & Chief Executive Officer,
Alpha Beta Company*

Williford Gragg[3,5]
Retired—Former
Chairman of the Board
United States Fidelity &
Guaranty Company

John Hartman[1]
Vice Chairman of the Board
President & Chief Executive Officer,
Skaggs Companies, Inc.*

L. Spry Kelly[2,3,5]
Retired—Former Partner,
Coopers & Lybrand

A.B. Kesler, Jr.[3,5]
Retired—Former
Chairman of the Board &
Chief Executive Officer,
Walker Bank & Trust Company

Thomas W. King
President & Chief Executive Officer,
Acme Markets, Inc.*

Mitchell Melich[3,5]
Attorney at Law,
Ray, Quinney & Nebeker

L. Tom Perry[2,5]
Member of the Council of the Twelve,
Church of Jesus Christ of Latter-Day Saints

Isadore M. Scott[2,4]
Chairman of the Board
Tosco Corporation

Richard L. Shanaman
Executive Vice President,
Chief Financial Officer & Treasurer

E.A. Sinclair[5]
Retired—Former
Secretary of the Company

L.S. Skaggs[1,4]
Chairman of the Board, President
& Chief Executive Officer

Thomas H. Sunday[1]
Executive Vice President
Chief Administrative Officer
& General Counsel

I.J. Wagner[2,4]
President
The Keystone Company

1. Executive Committee
2. Audit Committee
3. Finance Committee
4. Nominating Committee
5. Compensation & Stock Option Committee

*Wholly owned subsidiary of American Stores Company

American Stores Company Officers

L.S. Skaggs
Chairman of the Board, President and Chief Executive Officer

William R. Deeley
Vice Chairman of the Board

John Hartman
Vice Chairman of the Board

Richard L. Shanaman
Executive Vice President, Chief Financial Officer and Treasurer

Thomas H. Sunday
Executive Vice President, Chief Administrative Officer and General Counsel

Scott Bergeson
Vice President and Secretary

Richard G. Dunlop
Vice President and Assistant to the Chairman of the Board

Victor L. Lund
Vice President and Controller

Lester G. Jones
Vice President

Robert L. Salmon
Vice President

Officers of the Principal Operating Subsidiaries

Acme Markets, Inc.

124 North 15th Street, Philadelphia, PA 19101 — (215) 568-3000

Thomas W. King
President & Chief Executive Officer

Robert W. McCahan
Executive Vice President

Alpha Beta Company

777 South Harbor Boulevard, La Habra, CA 90631 — (714) 738-2000

Thomas W. Field, Jr.
President & Chief Executive Officer

Richard P. Gladden
Executive Vice President

Robert O. Kuchenbecker
Executive Vice President

Rea and Derick, Inc.

Fifth & Orange Streets, Northumberland, PA 17857 — (717) 473-3511

Paul A. Morelock
President & Chief Executive Officer

Skaggs Companies, Inc.

Post Office Box 30658, Salt Lake City, Utah 84130 — (801) 487-4531

John Hartman
President & Chief Executive Officer

Joseph R. Bowman
Executive Vice President

Ralph E. Davis
Executive Vice President

Calvin O. Drecksel
Executive Vice President

Fenton L. Maynard
Executive Vice President

American Stores Realty Corp.

Post Office Box 27447, Salt Lake City, Utah 84127 — (801) 539-0112

Edwin R. Markson
President

American Stores Buying Company

Post Office Box 5907, San Mateo, CA 94402 — (415) 349-8181

Fritz W. Keil
President

Arnold E. Ford
Executive Vice President

CORPORATE INFORMATION

American Stores Company

Post Office Box 27447
709 East South Temple
Salt Lake City, Utah 84127
Telephone (801) 539-0112

Medical Director

W.E. Peltzer, M.D.

Registrar and Transfer Agent

United California Bank
Trust Division
707 Wilshire Boulevard
Los Angeles, California 90017
Telephone (213) 614-4987

Shareholder Relations

Shareholder inquiries should be directed to:

Corporate Secretary
Post Office Box 27447
Salt Lake City, Utah 84127
Telephone (801) 539-0112

SEC 10-K Report

In compliance with new requirements of the Securities and Exchange Commission, the Company has incorporated almost all of its Form 10-K SEC filing requirements within this annual report. The intended result is to provide shareholders with full integrated annual disclosure in a single document.

Should you desire the supplementary document on the Form 10-K not already included in this annual report, it may be obtained without charge from the:

Treasurer's Office
Post Office Box 27447
Salt Lake City, Utah 84127